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Mortgage Information

Very few people have the luxury of paying cash for a new home. When purchasing a home, most buyers must take out a mortgage. A mortgage is an instrument that secures a loan against a house. It may also be referred to as a Deed of Trust. When you secure a loan to pay for a home, you will sign a promissory note and a mortgage at the closing proceedings. Below are some helpful hints to aid you in the process of applying for a home loan:

The First Step

Before you even begin looking at homes to purchase, you should contact a mortgage specialist to get pre-qualified or pre-approved. By doing this, it increases your chances of having your Offer to Purchase accepted by the seller. A seller is more likely to accept an offer from a buyer who already has funding versus one who still needs to get a loan. In addition, it is a good idea to obtain a copy of your credit report prior to contacting a mortgage specialist, so that you can clear up any errors that may appear on your report.

Pre-Qualification: This is an informal way to see how much you may be able to borrow. Prequalifying can usually be done over the phone by providing the mortgage specialist with your income, your long-term debts, and the amount of down payment you can afford.

Pre-Approval: This is a mortgage lender's commitment to loan money to you. When getting preapproved, you provide your loan specialist with all of the necessary financial records needed to apply for a loan. Getting pre-approved will provide you with the exact amount that you can afford and it shows sellers that you are serious about buying a home.

Applying for a Loan

There are several financial records that your mortgage specialist will need in order to process your loan application: · W-2s or tax returns for the past 2 years. · Proof of gross monthly income for the past 30 days. · Proof of investment income, including rental incomes. · A list of creditors, including account numbers, balances, and monthly payments. · Two months worth of banking statements. Your lender will also need a copy of the sales contract for the property you wish to purchase. In addition, if you are selling a home, you must also provide its sales contract to your lender.

During the processing of the application, you can expect the lender to verify all of the information you have provided. They will also run a credit report to see your past payment history as well as to verify outstanding credit balances. Be careful not to apply with too many lenders, in that numerous checks against your name within a recent period can throw up a red flag and cause your credit worthiness to go downward. Your lender will also check your FICO score, which is a points system that indicates your credit worthiness.

Types of Loans

There are several different types of loans available when applying for a mortgage: Conventional: These loans can be broken down into two types: Fixed-Rate loans and Variable-Rate loans. A Fixed-Rate loan is generally a 15-year or 30-year loan. The interest rate of this type of loan does not change during the life of the loan; therefore, your principal and interest mortgage payment will stay the same until the loan is paid off. A Variable-Rate loan is one in which the interest rate will change over the life of the loan period. These types of loans are commonly referred to as Adjustable Rate Mortgages, or ARMs. Hybrid Loans: These loans will generally have a fixed rate for the early life of the loan, such as the first 3, 5, or 7 years, and then roll over to a variable rate loan once the fixed period ends.

Government Program Loans: These loans are insured loans through either the Federal Housing Administration (FHA) or the Department of Veterans Affairs (VA). A government program loan generally requires a smaller down payment than a conventional loan. In addition, the interest rates on these loans are commonly below the current market rates. FHA loans have special programs for first-time home buyers and low-income home buyers.

Bridge Loans: This type of loan is for buyers who plan to close on their new home before they can sell their current one. A bridge loan can be set up to completely pay off the old home's mortgage, or it can be set up by adding the financial obligation of the new home to the existing amount of debt. A bridge loan is a short term loan, usually one year, and includes large, prepaid interest.

Loan Approval

Once your application for a loan has been processed, the lender will make a decision concerning making a commitment on the loan. If the lender decides to approve the loan, you will receive a Commitment Letter from the lender notifying you of their decision. The Commitment Letter may include certain conditions, such as repairs to the home, before the final approval is made. Also included in the Commitment Letter is the "lock-in" rate. This is the lender's promise to make the loan to you at a specified interest rate and number of points. A lock-in rate is generally honored for a certain period of time, such as 30 days. If the lock-in period expires before your closing date, you may have to pay additional fees to extend your lock-in period.

If the lender decides to reject your application for a loan, you will be sent a rejection letter notifying you of their decision. If you receive a rejection letter, you may present this to the seller to reclaim your earnest money you offered with the Contract of Sale. This letter is proof that you complied with the purchase agreement, and have been formally rejected for a loan.

The Closing

Once your loan has been approved and you have decided on a closing date, you will want to do a final walkthrough of the home to ensure that the home is in "as-was" condition. In other words, you want to ensure that the home appears as it did when you offered the Contract of Sale. In addition, this is your opportunity to determine if requested repairs have been made to the property and meet your approval. The closing procedure will be conducted by a lawyer, generally at the closing attorney's office. The day before, you will be told the total dollar amount you will need to bring to closing by the closing attorney. They will also provide you with any additional information you may need to prepare yourself for the proceedings.

Next page… Four items you must bring with you to the closing

On the day of closing, remember to bring:

- A certified check for the total amount of your closing costs.
- A picture ID, such as a driver's license.
- Your personal checkbook.
- Evidence of mortgage insurance (if this information has not already been requested)

Closing Costs

- Attorney's fees
- Property taxes (to cover the tax period up to that date)
- Loan origination fees (this covers the lenders expenses)
- Recording fees
- Interest (paid from the date of closing to the 30 days before first payment)
- First premium of mortgage insurance
- Title insurance
- Survey fees
- First payment to the escrow account for future taxes and insurance
- Loan points (a "point" is a fee that equals 1% of the loan amount. They enable you to secure a lower interest rate for the mortgage.)
- Home inspection fees (if you choose to have an inspection)
- Any additional preparation fees

During the closing, details of the sales contract will be explained to you. If everything meets your approval, you will sign all of the contracts to fin

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